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# Auditing Standards Board (ASB) meeting, January 8-10, 2008, Amelia Island, FL; ASB Highlights January 2008

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# AUDITING STANDARDS BOARD (ASB) MEETING

**January 8 - 10, 2008**

**Amelia Island, FL**

*Highlights*

## MEETING ATTENDANCE

### ASB Members

Harold Monk, Jr., *Chair*  
Sheila Birch  
Jacob Cohen  
Walt Conn  
Tony Costantini  
Bob Dohrer  
Charles Frasier  
Nick Mastracchio  
Jorge Milo (1/8 and 1/9 only)  
Andy Mintzer  
Keith Newton  
Pat Piteo  
Doug Prawitt  
Randy Roberts  
Darrel Schubert  
Tom Stemlar  
Stephanie Westington  
Art Winstead  
Megan Zietsman

### AICPA Staff

Mary Foelster, *Governmental Audit Quality Center* (1/10 only, by phone)  
Mike Glynn, *Audit and Attest Standards*  
Ahava Goldman, *Audit and Attest Standards*  
Hiram Hasty, *Audit and Attest Standards*  
Chuck Landes, *Audit and Attest Standards*  
Richard Miller, *General Counsel and Trial Board*  
Andy Mrakovcic, *Audit and Attest Standards*  
David Scott, *Professional Development*  
Judith Sherinsky, *Audit and Attest Standards*  
Linda Volkert, *Audit and Attest Standards* (1/9 only)  
Sharon Walker, *Audit and Attest Standards*

### Observers and Guests

Michael Adaszczik, *KPMG LLP*

Abe Akresh, *Government Accountability Office*  
Doug Besch, *KPMG LLP*  
Steve Bodine, *LarsonAllen LLP* (1/9 only)  
Mark Brennfleck, *KPMG LLP*  
Brian Croteau, *PriceWaterhouseCoopers LLP*  
Julie Anne Dilley, *PriceWaterhouseCoopers LLP*  
Jeff Ellis, *Securities and Exchange Commission*  
John Fogarty, *Deloitte & Touche LLP* (1/8 and 1/9 only)  
Brian Fox, *Capital Confirmations*  
Jan Herringer, *BDO Seidman LLP*  
Charlie Leftwich, *Ernst & Young LLP*  
Maria Manasses, *Grant Thornton LLP*  
Jeff Markert, *KPMG LLP*  
Dan Montgomery, *Ernst & Young LLP*  
Tammy Mooney, *Practitioners Publishing*  
George Rippey, *U.S. Dept. of Education Office of Inspector General* (1/10 only, by phone)  
Tania Sergott, *Deloitte & Touche LLP*  
George Tucker (1/9 and 1/10 only)  
Torpey White, *Goldenberg Rosenthal LLP* (1/9 only)

## **CHAIR AND STAFF REPORTS**

Mr. Monk introduced and welcomed five new ASB members—Jacob Cohen, Charles Frasier, Andy Mintzer, Randy Roberts, and Tom Stemlar—whose terms began with this meeting.

Mr. Monk welcomed Abe Akresh to the ASB table as the Government Accountability Office representative. Mr. Monk noted the AICPA will be awarding CPE credits for ASB meetings.

Mr. Monk recommended Sheila Birch and Tom Stemlar to be appointed to the AITF, replacing members who rotated off. This was ratified by the ASB.

Mr. Monk and Mr. Landes provided updates on matters relevant to the ASB. Mr. Fogarty provided an update on International Auditing and Attestation Standards Board activities.

## **AGENDA ITEMS PRESENTED AT MEETING**

### **1. Audit Documentation**

Ms. Zietsman, Chair of the Audit Documentation Task Force (Task Force), led a discussion of the materials for Agenda Item 1, *Audit Documentation*. The Task Force used the finalized and clarified International Standard on Auditing (ISA) 230, *Audit Documentation*, as a base and made changes to the ISA language only when it believed that there was a compelling reason to do so. The Task Force also tried to be true to the language used by the ASB in finalizing Statement on Auditing Standards (SAS) No. 103, *Audit Documentation* (AICPA, *Professional Standards*, vol. 1, AU sec. 339), and has, on occasion, departed from the language in the ISA where the Task Force believed such departure to be appropriate. It was also the Task Force's

intention not to create unnecessary differences with the Public Company Accounting Oversight Board's (PCAOB) Auditing Standard No. 3, *Audit Documentation* (AS 3).

### *Experienced Auditor*

The ASB considered the proposed change to the definition of the “*experienced auditor*.” AU section 339 defines the experienced auditor as one who has the “competencies and skills” to perform the audit. ISA 230 uses the concept of “practical audit experience and a reasonable understanding of...”

The ASB expressed concern that changing the language to agree with the ISA might be perceived by users as lowering the standard of the experienced auditor and, therefore, requiring a greater level of documentation. In response to this concern, the Task Force added a footnote that states, “having practical experience means possessing the competencies and skills that would have enabled the experienced auditor to perform the audit.” The change in definition will be discussed in the explanatory memorandum to the exposure draft (ED). This change is not intended to have an impact on current practice.

### *Abstracts or Copies*

Paragraph .06 of AU section 339 states, “abstracts or copies of the entity’s records should be included as part of the audit documentation if they are needed to enable the experienced auditor to understand the work performed and conclusions reached.” In preparing the agenda materials, the Task Force proposed moving this requirement to application material as this is essentially guidance to the requirement that the auditor prepare documentation “sufficient to enable an experienced auditor, having no previous connection with the audit, to understand: (a) the nature, timing and extent of the audit procedures performed to comply with the SASs and applicable legal and regulatory requirements; (b) the results of the audit procedures performed, and the audit evidence obtained; and (c) significant findings or issues arising during the audit, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions.”

Concern was expressed that moving this to the application material may create the perception that this is a lower standard than required by AS 3, which states, “Documentation of auditing procedures related to the inspection of significant contracts or agreements should include abstracts or copies of the documents.”

In response to the concerns expressed, the Task Force added the following requirement: “the auditor should include abstracts or copies of significant contracts or agreements in documentation of auditing procedures pertaining to those contracts or agreements.”

### *Other Comments*

The ASB agreed that the exhibit of documentation requirements in other SASs should be retained and requested that certain other editorial changes be made.

The proposed SAS will be reformatted in the format adopted by the ASB (see Agenda Item 11, *Clarity of the ASB's Standards*) and sent to the ASB for discussion at the January 29, 2008 ASB meeting. At that meeting, the ASB is expected to vote to ballot the proposed SAS for approval as an ED in the clarity format.

## **2. Communication**

Mr. Montgomery, Chair of the Communications Task Force (Task Force), led a discussion of the materials for Agenda Item 2, *The Auditor's Communication With Those Charged With Governance*. The Task Force is revising SAS No. 114, *The Auditor's Communication With Those Charged With Governance* (AICPA, *Professional Standards*, vol. 1, AU sec. 380), using the finalized and clarified International Standard on Auditing (ISA) 260, *The Auditor's Communication with Those Charged With Governance*, as a base. The Task Force made changes to the ISA language only when it believed that there was a compelling reason to do so. and believes that there are no substantive differences in performance between the proposed SAS and ISA 260.

The ASB reviewed the draft and directed the Task Force to:

- Make certain editorial changes to clarify the wording and to converge more closely with the ISA language.
- Delete the requirement relating to the auditor's responsibility for information prepared by management that accompanies the audited financial statements, and propose a conforming amendment to SAS No. 8, *Other Information in Documents Containing Audited Financial Statements* (AICPA, *Professional Standards*, vol. 1, AU sec. 550), as amended, to include the requirement.
- Consider adding either a requirement or guidance to clarify that the communication of the overview of the planned scope and timing of the audit includes a discussion of risk.

The ASB also directed that definitions in the standard be listed in the order in which they appear in the standard, or alphabetically when there are many terms defined.

The proposed SAS will be reformatted in the format adopted by the ASB (see Agenda Item 11, *Clarity of the ASB's Standards*) and sent to the ASB for discussion at the January 29, 2008 ASB meeting. At that meeting, the ASB is expected to vote to ballot the proposed SAS for approval as an ED in the clarity format.

## **3. Planning and Supervision**

Mr. Schubert, Chair of the Risk Assessment Task Force (Task Force), led a discussion of the materials for Agenda Item 3, *Redrafted SAS 108, Planning and Supervision*. He stated that the objective of the presentation was to discuss, in detail, the first draft of the redrafted SAS No. 108, *Planning and Supervision* (AICPA, *Professional Standards*, vol. 1, AU sec. 311). In October 2007, the ASB discussed the most significant issues identified by the Task Force. The disposition of those issues was documented in the accompanying discussion memorandum.

The following is a summary of the most significant issues discussed and the conclusions reached:

- Since most of the content related to supervision will be moved to other standards, “supervision” was deleted from the title of the standard.
- In paragraph 10 of the proposed SAS, the sentence, “The engagement partner may delegate portions of the planning and supervision of the audit to members of the engagement team.” seems to negate the first sentence of the paragraph and, accordingly, was deleted.
- In paragraph 15 of the proposed SAS, the concept of risk assessment should not be included as part of the requirement to establish an overall audit strategy since the application guidance related to this requirement identifies risk assessment as an element of the overall audit strategy.
- Consider carrying forward, in paragraph 16 of the proposed SAS, factors that are listed in paragraph .14*b* and *c* of AU section 311.
- In paragraph 28 of the proposed SAS, the determination of whether an expert should be, or should not be, part of the engagement team is more appropriately dealt with by Statement on Quality Control Standards No. 7, *A Firm’s System of Quality Control* (AICPA, *Professional Standards*, vol. 2, QC sec. 10). In addition, the last sentence of paragraph .22 of AU section 311 should be retained.

#### **4. Going Concern**

Mr. Milo, Chair of the Going Concern Task Force (Task Force), led a discussion of the materials for Agenda Item 4, *Revision of AU Section 341, The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*. The Task Force is revising SAS No. 59, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern* (AICPA, *Professional Standards*, vol. 1, AU sec. 341), as amended, to align the U.S. auditing standards related to going concern as closely as possible to the guidance in the February 2007 ED of ISA 570, *Going Concern*. The Task Force presented a revised draft of the proposed SAS as well as related issues. The ASB:

- Concluded that it is acceptable for the proposed SAS to establish a period for the auditor’s evaluation of going concern that is different from the period identified in the ISA 570 ED in order to enable the proposed SAS to align with expected U.S. accounting standards.
- Agreed with the guidance in paragraph 20 of the proposed SAS, which indicates that the auditor should ask management to extend the period of its assessment if the auditor believes the period used by management is unreasonable.
- Directed the Task Force to:

- Omit references to the Financial Accounting Standards Board (FASB) from the proposed SAS since the Governmental Accounting Standards Board (GASB) and the Federal Accounting Standards Advisory Board (FASAB) may address going concern in their accounting frameworks.
- Confer with Randy Roberts and Abe Akresh to revise paragraph 10 of the proposed SAS for U.S. purposes. This paragraph addresses considerations specific to public sector entities. The ASB also directed the Task Force to prepare an explanation of why the paragraph is being modified.
- Move paragraphs 26 and 27 of the proposed SAS to follow paragraph 29 of the proposed SAS because all of these paragraphs relate to the period beyond management's assessment.
- Elevate the application guidance in paragraph 37 of the proposed SAS to a presumptively mandatory requirement. This paragraph relates to the auditor's responsibility when an entity is dependent on additional support from an investor or other related party.
- Revise the description of the going concern assumption in paragraph 2 of the proposed SAS (an entity viewed as continuing in business) to reflect the language in paragraph .01 of AU section 341 (an entity continuing as a going concern) because the two descriptions are conceptually different.
- Consider whether there is application guidance taken from the ISA 570 ED that potentially conflicts with the concept of going concern in the U.S. literature. Paragraph 15, last sentence, as well as paragraph 52 in the proposed SAS contain guidance that may not fit well in the U.S. context.
- Strengthen the rationale, in paragraph 48 of the proposed SAS, for expressing an adverse opinion when the entity prepares its financial statements on a going concern basis and, in the auditor's judgment, the entity will not be able to continue as a going concern. In addition, the Task Force was directed to clarify that the auditor should exercise judgment in interpreting the accounting framework and include an example of such an adverse opinion.
- Delete or revise either paragraph 6 or paragraph 24 of the proposed SAS because they are identical.
- Add the phrase "if such doubt exists" to paragraph 12*b* of the proposed SAS.
- Define the term *reasonable period of time* in a separate section of the proposed SAS entitled "Definitions."

- Reconsider whether the statement that, in footnote 1 of the proposed SAS, the proposed SAS applies to financial statements prepared on an other comprehensive basis of accounting (OCBOA) should be revised. Although disclosure requirements would apply to OCBOA financial statements, other accounting requirements may not.
- Questioned how, in paragraph 37 of the proposed SAS, an auditor would be able to evaluate an investor's or other related party's ability to provide additional support to an entity if the auditor does not have privity to the contract between the investor or other related party and the entity.
- Questioned whether, in paragraph 51 of the proposed SAS, it would be appropriate for an auditor to qualify, rather than disclaim, an opinion if the auditor were unable to obtain sufficient appropriate audit evidence to conclude whether or not there was substantial doubt about the entity's ability to continue as a going concern.
- Concluded that the Task Force should revise the draft to reflect the ASB's recommendations so that the only modifications that would need to be made would be those resulting from any changes to the expected accounting standard.

## 5. Service Organizations (SAS)

Mr. Tucker, Chair of the Service Organizations Task Force (Task Force), led a discussion of the materials for Agenda Item 5, *Proposed Statement on Auditing Standards, Audit Considerations Relating to an Entity Using a Service Organization*. The Task Force is developing two new standards that will replace SAS No. 70, *Service Organizations* (AICPA, *Professional Standards*, vol. 1, AU sec. 324), as amended, which currently contains guidance for user auditors and for service auditors. One of the proposed standards is a SAS entitled *Audit Considerations Relating to an Entity Using a Service Organization*, which would be used by an auditor of the financial statements of an entity that uses a service organization. The other proposed standard is a Statement on Standards for Attestation Engagements (SSAE) entitled *Reporting on Controls at a Service Organization*, which would be used by a service auditor reporting on controls at a service organization. The objective of the Task Force with respect to the proposed SAS is to align the guidance in the proposed SAS with the December 2007 ED of ISA 402, *Audit Considerations Relating to an Entity Using a Third Party Service Organization*. The ASB directed the Task Force to:

- Clarify the meaning of the term “direct relationship,” as it is used in paragraphs 14 and 15 of the proposed SAS, in describing the contractual relationship between (a) the service organization and the user entity and (b) the service organization and the service auditor.
- Replace the phrase “is required to,” in paragraph 26 of the proposed SAS, with language that indicates a presumptively mandatory requirement rather than an unconditional requirement. In addition, the Task Force was directed to change the paragraph references to paragraphs 9, 17, and 21 of the proposed SAS.



- Add paragraph A8 of the ISA 402 ED, which states that public sector auditors may request a service auditor to perform tests of controls or substantive procedures related to compliance with legislation or proper authority.
- Change the reference, in paragraph 17 of the proposed SAS, from “the second standard of field work” to paragraph 40 of SAS No. 109, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement* (AICPA, *Professional Standards*, vol. 1, AU sec. 314.40).
- Clarify whether, in paragraph 37 of the proposed SAS, the direction to the user auditor to perform additional procedures is a presumptively mandatory requirement or application guidance. Paragraph 37 of the proposed SAS addresses situations in which the service auditor’s tests of controls cover a period prior to the user entity’s financial reporting period. In addition, the Task Force was directed to include guidance on the nature and timing of these procedures in the AICPA Audit Guide *Service Organizations: Applying SAS No. 70, As Amended* rather than in the proposed SAS.
- Change the paragraph reference, in paragraph 51 of the proposed SAS, from paragraph 31 to paragraph 46.
- Reconcile any differences between paragraphs 32 and 37 of the proposed SAS and paragraphs 53 and 54 of the proposed SSAE regarding the user auditor’s ability to use information about tests of controls performed by the service auditor during a period outside the user entity’s financial reporting period.
- Revise paragraph 33 of the proposed SAS to indicate that evaluating the nature, timing, and extent of the service auditor’s tests of controls is a presumptively mandatory requirement.
- Add the second and third sentences in paragraph A29 of the ISA 402 ED to paragraph 43 of the proposed SAS, indicating that if a user auditor is practicing in a jurisdiction that has different standards for service auditors’ reports, the user auditor may inquire about the adequacy of those standards.
- Clarify what the word *they* refers to in paragraph 52 of the proposed SAS.
- Replace the term *mortgage bankers* with the term *mortgage servicers* in paragraph 17 of the proposed SAS.

## 6. Service Organizations (SSAE)

Mr. Tucker, Chair of the Service Organizations Task Force (Task Force), led a discussion of the materials for Agenda Item 6, *Proposed Statement on Standards for Attestation Engagements*, Reporting on Controls at a Service Organization. The Task Force is developing two new standards that will replace SAS No. 70, *Service Organizations* (AICPA, *Professional*

*Standards*, vol. 1, AU sec. 324), as amended, which currently contains guidance for user auditors and for service auditors. One of the proposed standards is an SSAE entitled *Reporting on Controls at a Service Organization*, which would be used by a service auditor reporting on controls at a service organization. The other proposed standard is a SAS entitled *Audit Considerations Relating to an Entity Using a Service Organization*, which would be used by an auditor of the financial statements of an entity that uses a service organization. The objective of the Task Force with respect to the proposed SSAE is to align the guidance in the proposed SSAE with the December 2007 ED of International Standard on Assurance Engagements (ISAE) 3402, *Assurance Reports on Controls at a Third Party Service Organization*. The ASB directed the Task Force to:

- Replace the word *compliance*, in paragraph 2 of the proposed SSAE, with the word *operations* in the examples of types of service-auditor control reports covered by the proposed SSAE.
- Revise paragraph 4 of the proposed SSAE to indicate that a service auditor may report on management's written assertion or directly on the subject matter; in either case, the service auditor should obtain a written assertion from management that accompanies, or is included in, the service auditor's report.
- Align the definitions in the proposed SSAE with the definitions in the proposed SAS and in the ISAE 3402 ED.
- Delete paragraph 9 of the proposed SSAE regarding the service auditor's independence from the service organization, and consider whether the topic of independence should be addressed in the AICPA Audit Guide *Service Organizations: Applying SAS No. 70, As Amended*.
- Revise paragraph 11 of the proposed SSAE, which addresses situations in which a client requests a change in the scope of engagement, to agree with paragraph A4 of the ISAE 3402 ED.
- Revise the lead-in wording in paragraphs 13, 14, and 15 of the proposed SSAE to state what the criteria *are* rather than what the criteria *should require*.
- Include a sentence in the section, "Assessing the Suitability of the Criteria," of the proposed SSAE stating that management is responsible for selecting the criteria and the auditor is responsible for evaluating the criteria.
- Retain the paragraphs in the proposed SSAE that address materiality. In addition, the Task Force was directed to ask respondents to comment on these paragraphs in the introductory material of the proposed SSAE.
- Move paragraph 27 of the proposed SSAE to the section that addresses performing tests of controls. In addition, the Task Force was directed to indicate that the service auditor's description of tests of controls, and results thereof, should identify any tests of

controls performed by internal audit, the procedures performed by the service auditor on such work, and, if applicable, any negative findings from the work of internal audit.

- Delete, in paragraphs 29 and 33 of the proposed SSAE, the word *external* in describing the expert or specialist whose work is used by the service auditor.
- Revise paragraphs 29 through 34 of the proposed SSAE, which address the service auditor's use of the work of experts, to agree with paragraphs 26 through 31 of the ISAE 3402 ED.
- Add a paragraph to the proposed SSAE that provides application guidance regarding the service auditor's consideration of changes in a service organization's controls.
- Revise paragraph 43 of the proposed SSAE because, as written, it establishes a presumptively mandatory requirement for the service auditor to perform all the procedures included in the paragraph when determining if the system has been placed in operation, and it was suggested that the wording might be modified to require "a combination of two or more of the following procedures."
- Consider whether the guidance in paragraph 54 of the proposed SSAE is consistent with the guidance on benchmarking in auditing standards and is appropriately described.
- Review paragraphs 57*b* and *c* and 58 of the proposed SSAE regarding methods of selecting items for testing and determine whether the concepts are included in, and consistent with, SAS No. 39, *Audit Sampling* (AICPA, *Professional Standards*, vol. 1, AU sec. 350), as amended.
- Challenge whether each "should" in paragraph 60 of the proposed SSAE is required.
- Delete paragraph 61 of the proposed SSAE regarding the size of the sample when no deviations are expected.
- Continue to use the terms *type 1* and *type 2* in the proposed SSAE to identify the types of service auditor's reports, and add a footnote in the proposed SSAE indicating that some standards use the terms *type A* and *type B* to refer to these reports.
- Determine whether the presumptively mandatory requirement in paragraph 66 of the proposed SSAE is consistent with Chapter 1, "Attest Engagements," of SSAE No. 10, *Attestation Standards: Revision and Recodification* (AICPA, *Professional Standards*, vol. 1, AT sec. 101), as amended. Paragraph 66 of the proposed SSAE addresses procedures the service auditor should perform if management will not provide the service auditor with written representations.
- Change the wording in paragraph 76 of the proposed SSAE from *significant matter* to *significant findings or issues*.

- Delete paragraph 77 of the proposed SSAE regarding the date of completion for assembling the final engagement file.
- Change the phrase in paragraph 79c(iii) of the proposed SSAE from *operating effectiveness* to *design and operating effectiveness*.
- Revise paragraph 81 of the proposed SSAE to include the rationale in paragraph A28 of the ISAE 3402 ED for restricting the use of a service auditor's report.
- Change the phrase in paragraph 84b of the proposed SSAE from *controls operate effectively* to *controls operate as described*.

## 7. Compliance Auditing

Mr. Rippey, Chair of the Compliance Auditing Task Force (Task Force), led a discussion of the materials for Agenda Item 7, *Revision of AU Section 801*, Compliance Auditing Considerations in Audits of Governmental Entities and Recipients of Governmental Financial Assistance. The Task Force is revising the guidance in SAS No. 74, *Compliance Auditing Considerations in Audits of Governmental Entities and Recipients of Governmental Financial Assistance* (AICPA, *Professional Standards*, vol. 1, AU sec. 801), as amended, in response to the June 2007 report of the President's Council on Integrity and Efficiency entitled "Report on National Single Audit Sampling Project." The report contains the findings of a federal study of the quality of audits performed under Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* (also referred to as "single audits") and includes recommendations for improvements to AU section 801. In a discussion of initial issues related to the revision of AU section 801, the ASB directed the Task Force to:

- Move or replicate the requirement in paragraph .22 of AU section 801, which states that the auditor inform management if he or she becomes aware that the entity is subject to an audit requirement that is not encompassed in the engagement, to another AU section of the auditing standards.
- Clarify that AU section 801 is not applicable to (a) audits performed only under generally accepted auditing standards (GAAS) or (b) audits performed only under GAAS and generally accepted government auditing standards (GAGAS, also referred to as *Government Auditing Standards* or the "Yellow Book"). Instead, AU section 801 is applicable to audits conducted under GAAS, GAGAS, and compliance requirements set forth by a governmental entity—for example, single audits or other compliance audits performed under federal or state audit guides that require a compliance audit and GAAS.
- Clarify that all AU sections apply to the compliance audits to which AU section 801 will apply, unless an exception is provided. For example, the AICPA Audit Guide *Government Auditing Standards and Circular A-133 Audits* (the Guide) currently states that SAS No. 99, *Consideration of Fraud in a Financial Statement Audit* (AICPA,

*Professional Standards*, vol. 1, AU sec. 316), as amended, is not directly applicable to these audits. The Task Force was directed to reconsider whether AU section 316 should continue to be inapplicable to compliance audits performed under AU section 801 and whether any other AU sections should not apply.

- Review all the requirements in the Guide to determine whether they can be traced back to a requirement in AU section 801 or in another AU section. If not, and the requirement is to be retained in the Guide, the Task Force was directed to modify AU section 801 to include the requirement.
- Use, as a starting point, the current framework of Chapter 6, “Compliance Attestation,” of SSAE No. 10 (AICPA, *Professional Standards*, vol. 1, AT sec. 601), to begin developing a new AU section 801.
- Draft the revised AU section 801 in the clarity format.

## **8. Internal Control**

Mr. Newton, Chair of the Internal Control Task Force (Task Force), led a discussion of the materials for Agenda Item 8, *An Examination of an Entity’s Internal Control Over Financial Reporting That Is Integrated With an Audit of Its Financial Statements*. The Task Force is developing a replacement for Chapter 5, “Reporting on an Entity’s Internal Control Over Financial Reporting,” of SSAE No. 10 (AICPA, *Professional Standards*, vol. 1, AT sec. 501) based on PCAOB Auditing Standard No. 5, *An Audit of Internal Control Over Financial Reporting That Is Integrated with an Audit of Financial Statements* (AS 5). The Task Force also will be revising SAS No. 112, *Communicating Internal Control Related Matters Identified in an Audit* (AICPA, *Professional Standards*, vol. 1, AU sec. 325). Mr. Newton presented a draft of the proposed SSAE. The ASB directed the Task Force to:

- Continue to draft the replacement for AT section 501 as a proposed SSAE in which the auditor performs an integrated audit.
- Conform the definitions of *control objective* in paragraph 6 of the proposed SSAE and in the proposed SSAE, *Reporting on Controls at a Service Organization*.
- Delete the following sentence at the end of paragraph 6d of the proposed SSAE: “Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk.”
- Revise the definition of the term *relevant assertion* in paragraph 6 of the proposed SSAE to conform to the definition of that term in AS 5. Also, in the ED of the proposed SSAE, propose the same revision to the definition of *relevant assertion* in the risk assessment standards.
- Replace the word *express* with the word *form* in the phrase *express an opinion* in the first sentence of paragraph 8 of the proposed SSAE.

- Review and revise, as appropriate, mandatory (“must”) and presumptively mandatory (“should”) requirements in the proposed SSAE.
- Revise paragraph 12 of the proposed SSAE, as necessary, to require a disclaimer of opinion (and not permit an adverse opinion) in examinations of the internal control of certain governmental entities for which management does not provide the practitioner with an assertion.
- Change the heading above paragraph 14 of the proposed SSAE from “Documentation Supporting Management’s Assertion” to “Evidence for Management’s Assertion.”
- Revise paragraph 16 of the proposed SSAE to refer to the guidance on monitoring in COSO (provided such guidance is issued in final form).
- Consider replacing, in paragraph 21 of the proposed SSAE, the words *should inform* with other wording.
- Delete the phrase *and properly supervise any assistants* from the first sentence in paragraph 22 of the proposed SSAE because paragraph 22 addresses planning, and not supervision.
- Align paragraph 30 of the proposed SSAE more closely with SAS No. 65, *The Auditor’s Consideration of the Internal Audit Function in an Audit of Financial Statements* (AICPA, *Professional Standards*, vol. 1, AU sec. 322). The proposed SSAE should not require the practitioner to evaluate the extent to which he or she will use the work of others.
- Align paragraph 34 of the proposed SSAE, which addresses situations in which the work of others is performed by individuals having only competence or only objectivity, more closely with AU section 322.
- Determine whether, in paragraph 82 of the proposed SSAE, the guidance on varying the nature, timing, and extent of tests of controls from year to year is consistent with the SASs.
- Review and revise, as appropriate, references to *misstatements* so that the proposed SSAE is clear as to whether or not these are material misstatements.
- Consider whether there is a need to address, in the proposed SSAE, the timing of communications of control deficiencies to those charged with governance in an audit of a government entity. The concern is that a material weakness would be made public prior to the issuance of the financial statements and the auditor’s report thereon.

- Revise paragraph 124 of the proposed SSAE, which addresses opinions based, in part, on the report of another practitioner because as written, it would preclude two different practitioners from performing an integrated audit.
- Insert in Chapter 1, “Attest Engagements,” of SSAE No. 10 (AICPA, *Professional Standards*, vol. 1, AT sec. 101), as amended, an illustrative report for practitioners performing an examination of the suitability of the design of an entity’s internal control.
- State, in the proposed SSAE, that the guidance therein may be helpful to practitioners performing other examinations of internal control.
- Develop a revised draft of the proposed SSAE that reflects the ASB’s comments, with the expectation of voting to expose the revised draft for comment at the next ASB meeting.
- Present, at the next ASB meeting, a revised draft of a proposed SAS that would amend AU section 325.

## 9. Required Supplementary Information/Supplementary Information

Mr. Markert, Chair of the Required Supplementary Information/Supplementary Information Task Force (Task Force), and Mr. Glynn led a discussion of the materials for Agenda Item 9, *Required Supplementary Information/Supplementary Information*. The Task Force presented a draft of a proposed SAS that would replace SAS No. 52, *Required Supplementary Information* (AICPA, *Professional Standards*, vol. 1, AU sec. 558), to establish requirements and provide guidance on the nature of procedures to be applied to supplementary information (SI) required by the FASB, GASB, or FASAB, and to establish requirements and describe the circumstances that would require the auditor to report on such information.

Mr. Markert walked the ASB through the difference between required supplementary information (RSI) and SI. Mr. Markert explained that RSI is information that one of the accounting standard setters (FASB, GASB, or FASAB) requires to be presented to supplement the basic financial statements. Currently, the FASB has not designated any RSI; however, the GASB has designated several such items (for example, pension funding schedules, budgeting schedules, and management’s discussion and analysis). In addition, the FASAB has a few items that are designated as RSI.

In contrast to RSI, SI is not required by the standard setter. Traditionally, SI would be represented as an additional schedule that an entity voluntarily presents. However, the GASB has established generally accepted accounting principles (GAAP) requirements when SI is presented. For example, the GASB has established requirements for the presentation of the statistical section of the Comprehensive Annual Financial Report (CAFR) when the CAFR is presented.

The GASB has been concerned that under current auditing standards, there is not a significant “penalty” when an entity does not present RSI. The opinion on the financial statements would be unmodified and the report would merely state that the entity did not present RSI. The GASB feels that entities have determined that it is more cost beneficial to omit RSI and include the additional paragraph in the report than to prepare and present RSI. The GASB has asked the ASB, through the State and Local Government Expert Panel, to look at the current standards and consider what would constitute proper reporting.

In addition, with respect to an auditor reporting on SI, Mr. Markert explained the distinction between “audit submitted” and “client prepared” SI. When SI is “client prepared,” the auditor is not required to express any level of assurance on such information. However, in an auditor-submitted document, the auditor is required to report on all the information in the document. That is, an “in relation to” (SAS No. 29, *Reporting on Information Accompanying the Basic Financial Statements in Auditor-Submitted Documents* [AICPA, *Professional Standards*, vol. 1, AU sec. 551]) opinion or disclaimer must be provided for SI.

The ASB stated that there is an issue with respect to the definition of “required.” Currently, three buckets of RSI/SI exist:

- SI
- SI with GAAP requirements (if the entity meets certain criteria, then the SI is required)
- RSI (information that has been designated by the standard setter to be required)

The ASB pointed out that paragraph .06 of AU section 558 provides the following guidance with respect to the distinction between RSI and SI:

Required supplementary information differs from other types of information outside the basic financial statements because the FASB, GASB or FASAB considers the information an essential part of the financial reporting of certain entities and because authoritative guidelines for the measurement and presentation of the information have been established. Accordingly, the auditor should apply certain limited procedures to required supplementary information and should report deficiencies in, or the omission of, such information.

Using that guidance, one could argue that SI with GAAP requirements (the second bucket above) should be defined as RSI. The ASB directed the Task Force to develop a clear distinction between the RSI and SI so that auditors understand their responsibilities.

Mr. Markert asked the ASB to consider whether it is appropriate to require auditors to report on RSI regardless whether the information is in an auditor-submitted or client-prepared document. The ASB generally agreed that the auditor should report on RSI in all instances. However, in order to properly position the requirement, the definition of “required” must be clarified. The ASB believes that the reporting requirement should run only to RSI and not to SI with GAAP requirements.



The ASB also considered the draft reporting guidance that the Task Force prepared. The draft guidance would result in the auditor providing limited/negative assurance with respect to the RSI: “Based on our limited procedures, nothing came to our attention to indicate that material modifications are needed to the information for it to be in conformity with the requirements for required supplementary information in accounting principles generally accepted in the United States.” The ASB concluded that such limited assurance is not appropriate as the auditor does not perform analytical procedures as contemplated in engagements to provide limited assurance. Furthermore, the ASB believes that the users of the RSI are not asking for limited assurance. The ASB directed the Task Force to consider a report that explains the procedures performed and states that exceptions will be reported. If the auditor does not find any exceptions, then “nothing came to our attention” would be expressed. The language would be analogous to that used in agreed-upon procedures engagements.

The ASB directed the Task Force to revisit the issues again and, at a future ASB meeting, provide additional background material, such as specific examples of RSI, to the ASB. Additionally, the Task Force will also revisit the requirements with respect to SI.

## **10. Interim Financial Information**

Mr. Milo, Chair of the Interim Reviews Task Force (Task Force), led a discussion of the materials for Agenda Item 10, *Interim Financial Information*. Specifically, Mr. Milo led the discussion of a proposed amendment to the applicability of SAS No. 100, *Interim Financial Information* (AICPA, *Professional Standards*, vol. 1, AU sec. 722), to accommodate reviews of interim financial statements or information of certain companies offering securities pursuant to Securities and Exchange Commission (SEC) Rule 144A, *Private Resales of Securities to Institutions*, and/or participating in private equity exchanges.

Mr. Milo advised that the issue was originally discussed with the Audit Issues Task Force (AITF) at its meeting in October 2007. At that meeting, the AITF approved the development of a joint project of the ASB and the Accounting and Review Services Committee (ARSC) to consider the issue. Subsequently, the ARSC also approved the project.

Mr. Milo stated that the Task Force considered the following as potential solutions to the issue:

- Develop a new interim review standard for private companies
- Amend the scope of AU section 722 to accommodate reviews of interim financial statements or information of certain companies offering securities pursuant to SEC Rule 144A and/or participating in private equity exchanges
- Develop an auditing interpretation of AU section 722 that would allow for the review of interim financial statements or information of certain companies offering securities pursuant to Rule 144A and/or participating in private equity exchanges

Mr. Milo advised that after consideration, the Task Force concluded that AU section 722 should be retained with its applicability extended. An engagement to review the financial statements of an entity that is not covered by the extended applicability would be governed by Statements on Standards for Accounting and Review Services. The Task Force acknowledged that the end result would be a standard that would retain guidance for public companies and that the ASB does not have the authority to issue standards for public companies. Mr. Glynn reported that he contacted the PCAOB to gauge their reaction to the proposed revision. The PCAOB stated that they would not object to the amended applicability since it did not affect the guidance as it pertains to public companies.

The ASB considered the Task Force's proposed revision to AU section 722 and directed the Task Force to:

- Revise the term “substantially similar” because it is too vague.
- Delete unnecessary references to public companies and to the SEC. If AU section 722 is amended, it will be made applicable only to those engagements to which the ASB has the authority to issue standards.

## **11. Clarity of Standards**

Mr. Fogarty, Chair of the Clarity Task Force (Task Force), led a discussion of the materials for Agenda Item 11, *Clarity of the ASB's Standards*. The ASB was asked to consider the format of the standards and determine a policy for dealing with the placement of requirements that could be placed in either an umbrella standard or a topic-specific standard.

### ***Format of Standards***

At the October 2007 ASB meeting, Audit and Attest Standards staff was directed to consider how to most effectively present the requirements in the standards. Staff developed three presentations for discussion by the ASB at this meeting.

#### ***1. IAASB Style***

The format used by the IAASB separates the requirements and application material. Application material paragraphs are numbered using an “A” prefix and presented in a separate section that follows the requirements.

The members supporting this format expressed the following thoughts:

- The more one works with the IAASB format, the easier it is to follow.
- The presentation is simple.
- Requirements are easily identifiable.

- This format will be supported in an electronic environment.

The ASB expressed the view that the electronic format should facilitate different ways of working with the standards and, accordingly, the format adopted should facilitate this. While the bold/grey style works in print, it may not translate well electronically. Concern was expressed that the bolding may be lost.

## 2. *Bold/Grey Style*

In this format, the requirements and application material are presented together and bold text is used to identify the requirements. The members supporting this format expressed the following thoughts:

- This presentation is easy to read, particularly in print form.
- The application material may not get the attention it deserves if it is separated from the requirements.

## 3. *FASB Codification Style*

Agenda materials were presented in a format that uses a similar numbering system to that being used by the Financial Accounting Standards Board in their Codification of accounting standards.

The ASB expressed the view that this format is too complicated.

The ASB agreed by a vote of 14 to 5 to adopt the IAASB style.

## ***Placement of Topic-Specific Material***

The ASB was asked to consider whether topic-specific requirements, such as communication with those charged with governance or documentation requirements, should be included in the topic-specific SAS or in the umbrella SAS.

The ASB expressed a preference that requirements be included in the topic-specific SAS and that an exhibit be included in the umbrella SAS that would reference back to the specific requirement.

## ***Consistency With ISAs***

The ASB was also asked whether the content of the SAS should be aligned with the content of the ISAs. Recognizing that the ASB has adopted a strategy to use the ISAs as a base for its standards and that consistency with the ISAs will be helpful for those practitioners who switch between the two sets of standards and in maintaining convergence with ISAs as they are amended, the ASB supported consistency of content with the ISAs. However, the ASB also cautioned that there needs to be some level of flexibility.

## **12. Liaison Meeting With PCPS Technical Issues Committee (TIC)**

The ASB met with the PCPS Technical Issues Committee (TIC) on matters of mutual interest. Agenda items included TIC's views on various aspects of the *Clarity of the ASB's Standards* Project. TIC monitors and comments on technical developments that could significantly affect local and regional CPA firms and their clients.

## **13. Other Items**

The ASB scheduled a conference call for Tuesday, January 29, 2008, from 2:00 - 4:00 p.m. Eastern Standard Time to discuss and vote to ballot two proposed SASs for exposure: *Audit Documentation* and *The Auditor's Communication With Those Charged With Governance*.

The meeting adjourned at 3:10 pm on Thursday, January 10, 2008.